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Higher Capital May Impair Bank Safety

By SANFORD ROSE

By persistently demanding that banks operate with ever higher ratios of capital to assets, the regulators may end up doing a disservice to the industry, to the country, and to themselves. Higher capital ratios may under certain circumstances increase rather than decrease the risk profile of banking institutions.

In theory this isn't supposed to happen. The greater the owner's stake in the business, the more prudent he is supposed to be. Unfortunately, theories don't always work out in practice.

Comment

As noted in a previous comment, it makes little sense to ask banks to raise capital-asset ratios by increasing the numerator – i.e., by selling additional shares. Why, pray tell, should we encourage the expansion of an already overcrowded industry whose marginal revenues are likely to fall short of the marginal cost of the equity raised? That course of action is unsound from the viewpoint of both the individual firm and society as a whole.

In practice, faced with the need to lift capital-asset ratios, most banks will choose to shrink by paring assets and paying down liabilities. What will be the impact of this maneuver on the safety of banks?

Two Steps Up, One Step Down

By definition, retrenchment will raise the book value of the capital-asset ratio. But the relevant question is what will happen to that ratio in market-value terms. That is, the regulators should be concerned with whether the market value of capital ends up as a larger or smaller fraction of the market value of bank assets.

Retrenchment should raise this market-value ratio, but by less than the increase in book-value terms. That's because the per-share value of bank capital should fall, for at least two reasons. First, as banks substitute equity for debt, their taxes will rise. Interest on debt is tax deductible, while dividends are not. Thus, higher capital-asset ratios will tend to reduce after-tax profitability, lowering per-share values.

The second reason for falling per-share values has to do with deposit insurance. Bank shares include a premium for what is called the deposit-insurance subsidy. That is, by failing to graduate deposit-insurance

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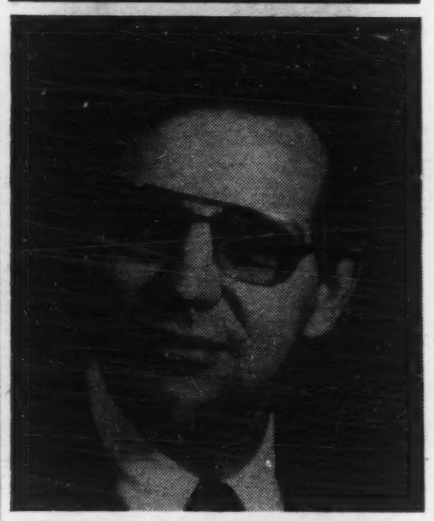
INSIDE NEWS

PEOPLE



MANUEL H. JOHNSON, in his departing remarks as vice chairman of the Federal Reserve Board, said the Fed may move away from the holding company structure that he has advocated. *Page 2*

FINANCE

MAJOR BANK and thrift stocks fell sharply Monday as heavy across-the-board selling continued. *Page 20*

WASHINGTON

JAMES M. FAIL defended himself against charges that he misled regulators about his past to acquire Bluebonnet Savings Bank. *Page 2*

INTERNATIONAL

AMID CONFUSION over the terms of a freeze on Kuwait's assets, First National Bank of Chicago blocked and then released a $111 million payment to a Kuwaiti bank. *Page 12*

CONSUMER

VALLEY BANK of Nevada's application to accept ATM cards bearing the Cirrus logo could touch off another round of lawsuits in an industry already jittery over antitrust litigation. *Page 6*

TECHNOLOGY

GEOSERVE, the wholesale banking arm of Manufacturers Hanover, is creating relational data bases for customer and product information. *Page 3*

REAL ESTATE

THE BOTTOM FELL out of the real estate portfolios of the nation's 10 largest banks in the first half as the banks racked up massive nonperforming loans. *Page 8*

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MNC to Place $180 Million Of Preferred

By KELLEY HOLLAND

In its first move to boost capital and liquidity since disappointing second-quarter results prompted funding difficulties, MNC Financial Inc. said on Monday that it will privately place $180 million of preferred stock with an already powerful member of its board of directors.

"The sale of the preferred shares represents a significant step in the company's efforts to strengthen its capital position," said Alan F. Hoblitzell Jr., president and chief executive officer, in a prepared statement.

Line of Credit in Works

The announcement confirms earlier reports that MNC was seeking an equity infusion of about $200 million. In addition, the company is also known to be putting together a $750 million line of credit with J.P. Morgan & Co.

The move, which does not necessarily reopen the capital market for the Baltimore-based company, could increase company director Alfred Lerner's ownership of MNC equity to 23%, analysts said.

"He was the dominant shareholder before. This makes him

See **MNC** *back page*

Firstar of Wisconsin To Buy Banks of Iowa

By NANINE ALEXANDER

Banks of Iowa Inc., which recently canceled a nine-year-old agreement to merge into First Bank System Inc. of Minneapolis, said Monday that it would instead be acquired by Firstar Corp.

Milwaukee-based Firstar Corp. agreed to pay about $219 million in stock, about 20% below the price First Bank System agreed to pay before its own earnings problems scotched the deal.

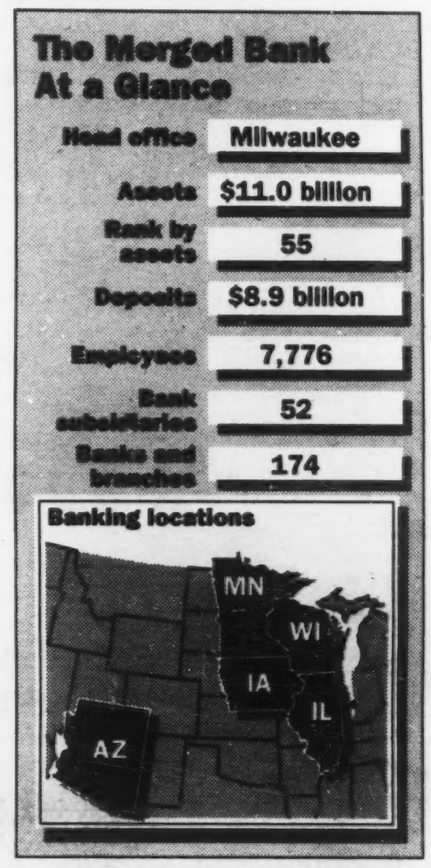
First Deal Under New Law

The Firstar acquisition would be the first allowed under an interstate banking law passed by the Iowa legislature earlier this year and taking effect next Jan. 1. Banks of Iowa would become a wholly owned subsidiary called Firstar Corp. of Iowa, part of a five-state superregional with $11 billion in assets.

With Banks of Iowa's assets added, Firstar would rise about seven places from its yearend 1989 rank of 62d among bank holding companies. It is already the largest in Wisconsin.

Value is $75.60 a Share

The definitive agreement, announced Monday after what company officials said were several months of negotiations, calls for Firstar to exchange 2.7



of its shares for each of Banks of Iowa 2.9 million outstanding shares. Based on Firstar's $28 price at last Friday's close, the transaction would have an indicated value of $75.60 for each Banks of Iowa share.

By contrast, First Bank System's unconsummated stakeout agreement called for an eventual purchase price equal to one and

See **FIRSTAR** *back page*

Nuclear Industry Promises to Be A Hot Source of Trust Business

By RICHARD LAYNE

NEW YORK — Regulatory changes governing the nuclear power industry have created a potential pool of $100 billion in trust assets, the largest source of new trust business in recent memory.

In keeping with two-year-old federal regulations, corporations that own nuclear power plants had to establish trust funds by July 27 for dismantling those plants. The initial funding of the accounts is small, but the guaranteed annual growth and staggering potential have had bankers scrambling for the business.

"All of a sudden," nuclear decommissioning trusts have become "a new, large market," said Richard L. Deeter, vice president at Harris Trust and Savings Bank, Chicago.

Four Clear Winners

Four banks have emerged as the early winners in the battle for these trusts accounts, according to trust bankers. They are Harris Trust, Mellon Bank, Bankers Trust New York Co., and State Street Bank and Trust Co., Boston.

The trusts are mandated by Congress to ensure that funds will be available to clean up nuclear power plants when their 40-year licenses expire. The Nuclear Regulatory Commission reports that 60 utility companies have 114 nuclear plants in operation, with more being added yearly.

$1 Billion to Be Added Yearly

The Edison Electric Research Institute in Washington said utilities have so far put $2 billion in what are termed nuclear

See **NUCLEAR** *page* **11**

Middle-Market Relationships Face a Threat

By WILLIAM GOODWIN

At a time when banks are at least paying lip service to relationship banking, their interest in securitization could endanger the relationships that have always driven middle-market lending.

"Certainly, there's going to be a lot more securitization of middle-market loans in the next five years," said John Leahy, senior vice president in charge of middle-market lending in the Northeast at Chase Manhattan Corp.

Since the mid-1980s, banks have been securitizing everything from credit card receivables to recreational-vehicle loans, to highly leveraged transactions. Securitization allows banks to remove these assets from their balance sheets, thereby improving financial ratios and cutting capital requirements.

Middle-market borrowers are generally defined as companies with annual sales of $5 million to $250 million. According to

See **SECURITIZATION** *page* **18**

COMMENT/ *By Sanford Rose*

Higher Capital May Impair Bank Safety

Continued from *page* **1**

charges according to bank riskiness, the government in effect subsidizes the bank shareholder, and this subsidy is embedded in the stock price. Any increase in the owner's capital stake in the bank tends to reduce the value of the subsidy, thereby lowering the worth of individual shares.

Nevertheless, these tax and deposit-insurance consequences are what economists call second-order effects. By reducing per-share values, they limit the gains in capital-asset ratios in market-value terms. But they do not nullify these gains.

A Disturbing Proviso

An increase in capital-asset ratios, whether achieved by raising additional capital or by paring assets, will probably raise the amount of market-value capital backing each dollar of assets. Provided the risk profile of assets remains unchanged, the capital cushion protecting the deposit-insurance fund will become somewhat more adequate than it was previously.

But the proviso is terribly important. If, in the process of retrenching, banks increase the risk profile of assets, the additional capital cushion may prove insufficient, and the effort to raise capital-asset ratios may end up being counterproductive.

A case can be made that asset shrinkage is in fact apt to increase the riskiness of bank assets. When banks retrench, they probably do so by eliminating those assets whose profit per unit of required capital is lowest.

Since capital requirements are not at present graduated according to the true riskiness of loan assets, banks earn less per dollar of required capital on low-spread, low-risk commercial loans made to national companies than they do on, say, credit extended to local middle-market firms.

Therefore, if pressed to retrench, banks are most likely to purge relatively high-grade commercial credits from their portfolios. And although not exactly loaded with such loans, banks still hold a measurable chunk of the business. As these sounder commercial credits are eliminated, the average probability of loan defaults will rise.

But the effects of asset retrenchment will extend beyond that of increasing expected losses. The true riskiness of the loan portfolio depends on the correlation or covariance of asset returns, which measures the likelihood that a given economic disturbance will result in a simultaneity of customer defaults.

Down with Interdependence!

The evidence shows that most large as well as small banks have highly concentrated loan portfolios. They lend to predominantly local borrowers, most of whom tend to be vulnerable to the same regional economic shocks.

Otherwise put, the customer populations of most banks exhibit high positive loss correlations. Borrower business fortunes are closely interdependent, whereas, from

"Rising capital ratios will force banks to opt out of national credits, to their detriment."

the banks' viewpoints, these business fortunes should be as independent of each other as possible.

In order to lower loss correlations, banks should *increase, not decrease*, their lending to nationwide firms. That's because while loss correlations are in most cases strongly positive within given regions, they are much less positive, and may even be negative, across regions.

Disproportionate Drop in Risk

A study of the 50 largest banks in the country done some years ago found that these institutions could have greatly improved their asset-efficiency ratios – defined as returns minus average losses divided by a measure of loss volatility (standard deviation) – by substituting a hypothetical pool of loans made to nationwide companies for a large fraction of their existing, and mostly local, business credits.

Although spreads would have fallen, asset-efficiency ratios would have risen because the decline in risk, as measured by the loss volatility, was greater percentagewise than the drop in returns. The reason for the sharp decline in risk was that the loss correlations between the loans in the nationwide pool and the loans in the banks' existing portfolios were lower than those within these portfolios.

In other words, the factors that produced clusters of local losses did not affect, to nearly the same degree, the fortunes of the national firms, reaffirming that banks can materially reduce the threat of loss simultaneity by lending across regional lines. But if banks curb interregional lending – if they in effect turn completely away from the national firm – they obviously circumscribe their diversification opportunities and increase their risks.

More Failures Likely

Yet because lending to national firms is generally a low-spread activity, that is precisely what will probably happen when capital requirements are increased.

As a result, asset shrinkage will not only raise the mean probability of loan defaults, it will also increase their variance. When times turn bad in a particular region, its banks will experience a higher percentage of portfolio losses than would have been the case had they remained active in the national loan market.

Therefore an indirect, but nonetheless very real, consequence of higher capital-asset ratios is likely to be more rather than fewer bank failures. And while capital cushions, expressed in both book- and market-value terms, will rise, they will probably not rise sufficiently to protect the deposit-insurance fund from the increased threats to its integrity. □

CRIME BLOTTER/ *By Tom Leander*

Trust Officer Violated Trust

"What I did was my own fault," a fallen trust officer told the judge as he was sentenced in Milwaukee federal court last week.

"I was in a dream world," added Dale Phillips, 44, formerly of Associated Kellogg Bank in Green Bay, Wis. Mr. Phillips was convicted of embezzling $1.5 million from trust accounts and spending the money on luxury items – including a $350,000 house, a $100,000 sailboat, and expensive cars.

Judge Thomas Curran gave Mr. Phillips the maximum penalty of 51 months in prison. The stiff sentence was partly to punish the the former trust officer for reneging on a promise he made in May, when he was convicted, to sell off his ill-gotten assets to make restitution to the bank.

Defense attorney Gerald Boyle, arguing for a lighter sentence, sought to portray Mr. Phillips as a "Walter Mitty" character who led a fantasy life of luxury, while his actual salary at the bank was $30,000 a year.

Mr. Phillips avoided detection while skimming off the money over five years, prosecutors explained, because most of his clients were elderly and did not keep a close eye on their trust accounts.

* * *

In-Law Gets into the Act

The long arm of the law reached out last week to a money launderer's mother-in-law, who was charged with threatening a customs agent who helped convict her son-in-law.

Gloria Parra De Espinosa is the mother-in-law of money launderer Akbar A. Bilgrami, one of five former bankers convicted last week of laundering illicit drug profits at the Bank of Credit and Commerce International, Tampa.

After the verdicts were read on July 28, Ms. Espinosa allegedly grabbed U.S. customs agent Gregory Cook, who participated in a two-year sting that netted Mr. Bilgrami and the others, and said: "You did a good job, agent – your children will pay for this."

Ms. Espinosa, 54, is a Panama national who earned a doctorate in psychology in the United States. Both her husband and her ex-husband signed a $250,000 bond to obtain her release.

Robert Polli, an attorney for Ms. Espinosa, said the remark was not a genuine threat, but rather the "emotional outburst of a distraught mother."

The trial in Tampa drew international attention because one of the convicted bank employees was Amjad Awan, the former personal banker to deposed Panamanian strongman Manuel Noriega. The money-laundering ring was broken via an intricate, two-year sting operation in which customs agents posed as financial consultants with close ties to Colombian drug lords.

* * *

More Troubles for Spiegel

The screws appear to be tightening on former Columbia Savings and Loan chief executive Thomas Spiegel. Last month, the Office of Thrift Supervision accused Mr. Spiegel of squandering $19 million of Columbia's money on such frivolous items as corporate jets, condominiums, and expensive free concert tickets for friends.

Mr. Spiegel resigned as Columbia's chief executive in December, after losses in the thrift's large junk-bond portfolio left it teetering on the brink of seizure by regulators. Next, the OTS filed a civil complaint against Mr. Spiegel, seeking to recover the $19 million along with $5 million in fines.

In the latest development, Mr. Spiegel's lawyers last week said that the OTS is ready to add new charges to the original complaint, involving expenditures for Mr. Spiegel's private security staff.

* * *

Variation on an Old Trick

A ruse that usually works well for pickpockets tricked an armored-car employee out of $50,000 last Thursday outside LaSalle Bank Lake View, in Chicago.

The employee was making a routine delivery to tellers, pushing a cart loaded with cash into the bank branch, when he noticed a stack of $1 bills on the sidewalk.

The employee, whose name was not revealed by police, rose to the bait. He left his cart momentarily to pick up the money, which he handed over to a teller inside the bank.

Only later, according to Detective Ernest Ursitti of the Lake View police, did the employee notice that $50,000 had been removed from his cart while he was picking up the singles.

Detective Ursitti said a witness provided a description of the man who dropped the bills, but no arrests have been made. □

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Nuclear Power Industry Is Hot Source of Trust Business

Continued from *page 1*

decommissioning trusts. The institute said $1 billion more will be invested by yearend. Required contributions will bring in at least another $1 billion in assets yearly. By 2008, the nuclear trusts will have $100 billion in assets, the NRC estimates.

The trusts are attractive not only because of their potential size, but also because no money can be withdrawn until the 40-year licenses for the plants expire. Until the licenses run out, utility companies must continue to put money into the trust.

"The real impact is they have to set aside large amounts of money every year," said Mr. Deeter. "It's a steady stream of assets." As of last week's deadline, Harris said it had gained $275 million in assets from nine nuclear trust accounts, about the same as a medium-size pension fund. Two of the trust accounts cover big California nuclear plants and could be worth nearly $1 billion apiece in 20 years.

Oldest Plant Still Operating

The Nuclear Regulatory Commission estimates that it will cost $165 million to clean up the average plant, but costs vary greatly by size. The oldest nuclear plant is the Yankee Row plant near Pittsfield, Mass., which was licensed in 1960 and is still operating.

Utility companies with older plants must make fairly large trust contributions now, while contributions for new plants will be relatively small initially.

Utilities with older plants must make fairly large trust contributions now; contributions for new plants will be small initially.

"These assets are expected to grow dramatically," said Carter Reynolds, senior vice president of Bankers Trust, which now has four nuclear trust accounts with a combined $150 million in assets. Ms. Reynolds said its trusts will grow tenfold over the remaining life of the plants, roughly 20 years.

So far, Mellon's 11 nuclear trusts represent $310 million in assets, said Timothy F. Keaney, Mellon vice president.

State Street did not return phone calls or answer inquiries about the size of its nuclear trust business.

Fee Growth Seen

The nuclear decommissioning trust accounts are generating only limited fees at this time, say bankers. The average account size – about $30 million – and regulations limit tax-credit investment to safe securities such as municipal bonds.

"For now, their contribution to our profitability is small," said Mr. Keaney of Mellon, which has opened twice as many decommissioning trust accounts as employee-benefit accounts in the past year. "But in five years, we expect it to be significant."

When the accounts grow, some trusts will require five investment managers and sophisticated monitoring of performance. As a master trustee overseeing the investments of these funds, Mellon expects its service fees to increase commensurately.

Karen Adams, a vice president at Mellon, said that only half of the 60 corporations that set up trusts looked for a national trust bank. The balance elected to open trust accounts with their local banks, in some cases for political reasons.

But some of these utilities may switch trust providers, she said, because small banks may not be able to supply the monitoring and investment managers required. Complex back-office systems, typically present in big master trust banks, are needed to do the job. □

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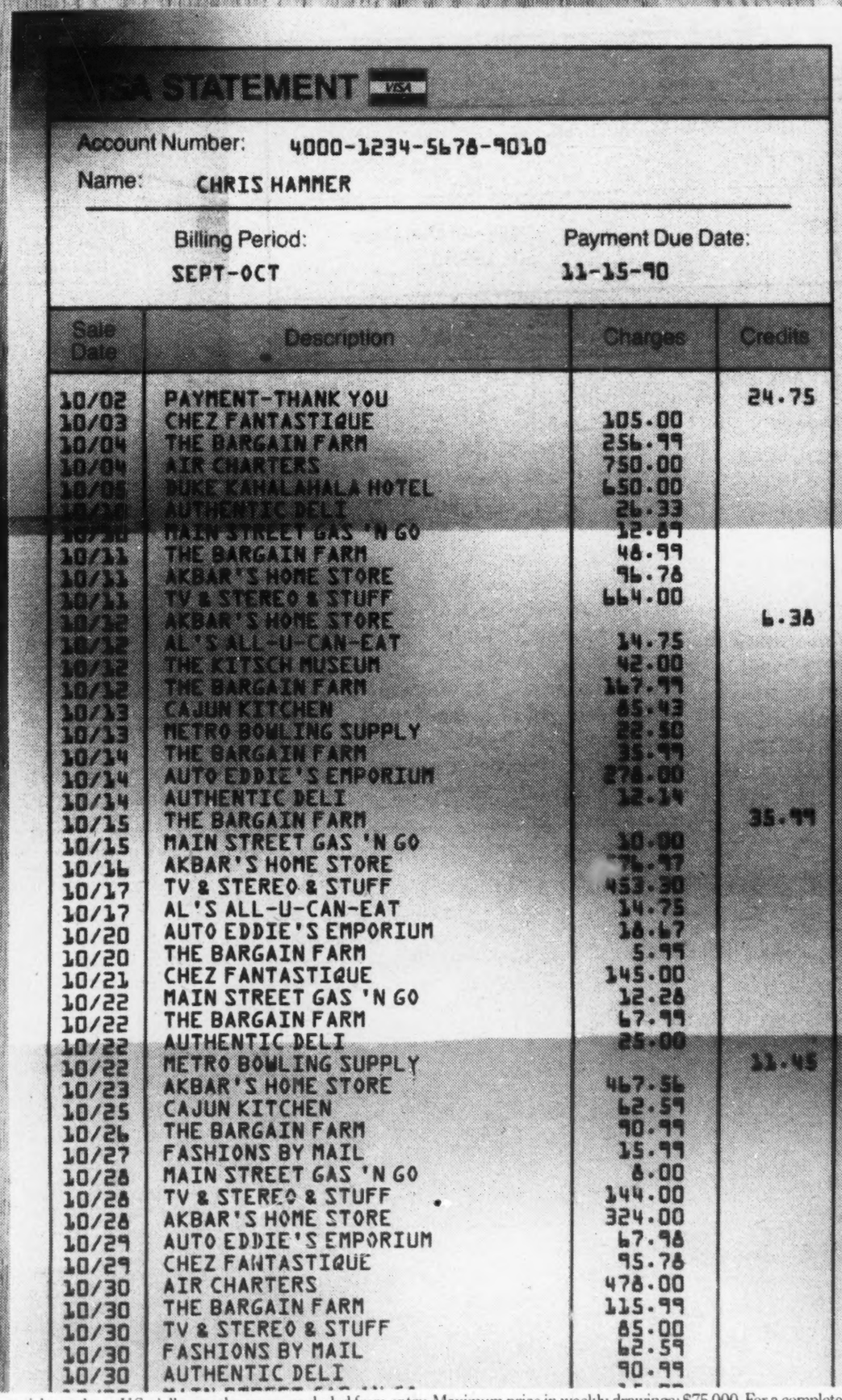
se might pick up the tab.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Billing Period: SEPT-OCT
Payment Due Date: 11-15-90
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Bluebonnet Deal Defended by Fail

Continued from *page 2*

Metzenbaum.

Bankers Life, an insurance Company he dealt with, "gave me $25 million at the closing and said they would be responsible for the other $10 million under certain circumstances."

On key details, including the date on which Bankers Life committed to fund the deal, Mr. Fail was hazy. For example, Mr. Fail said he was not sure if newspaper reports that Bluebonnet received $275 million last year are true.

He also told the panel he probably did not look over a statement he signed that represented that he had not been the subject of civil or criminal actions.

A 1976 Alabama indictment against Mr. Fail was dismissed with the stipulation that it could not be brought again, but the insurance company he owned was convicted of fraud and Mr. Fail agreed not to underwrite or sell insurance in the state again.

But Mr. Fail said that some details might have been overlooked in the rush to get the deal done by the end of the year.

Mr. Fail said it was not until Dec. 9 that the Federal Home Loan Bank Board, the now-defunct thrift regulatory agency, told him he was once again considered a serious bidder for the group of Texas thrifts. After a week of negotiations, he said, the Bank Board gave him a Dec. 28 closing date.

That date was moved up to Dec. 22. After a week of frantic work, he arrived at the Bank Board offices to face "the biggest pile of documents I have ever seen in all my life." □

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An Equity Swap Is Considered Crucial for BNE

By TOM LEANDER

The $33 million second-quarter loss posted by Bank of New England Corp. did not conclusively signal whether the deeply troubled institution can rebound from staggering real estate loan problems. But it is looking as if the third quarter could be decisive.

By the end of September, the Boston-based company and its subsidiaries will have to increase its razor-thin 1.64% capital ratio, decrease its whopping 13% ratio of nonperforming loans, and convert a significant amount of its $700 million in outstanding debt to equity, thereby avoiding hefty interest payments.

ANALYSIS: *Follow-up on the news*

With the $23 billion-asset company's options for raising capital running out and with an absence of operating income, an exchange with bondholders is becoming critically important.

Retiring all outstanding debt would free the company from about $60 million in interest payments a year. Some $28 million is due by Oct. 1. The next payment, $7.1 million, is due next Wednesday.

Need for Agreement Cited

"The holding company has to come to terms with the bondholders," said Gerard Cassidy, a securities analyst for Tucker, Anthony & R.L. Day in Portland, Maine.

"In light of the deepening banking crisis in New England, regulators will be hesitant to approve the interest payments [on the company's bonds]," he added.

A deal to swap all of the company's senior and subordinated debt for cash and securities could possibly increase its capital level to about 3% or 4%, one analyst estimated. Regulators had ordered the company to raise its equity level to 3% by May 31, but so far have not penalized the bank for failing to do so.

Exchange Offer Expected

"We believe an exchange offer for all issues of [Bank of New England's] debt is imminent," said Douglas Randall, managing director of Balfour, Maclaine Capital Markets Inc., a brokerage house.

"We would regard the absence of an attempt to exchange as a sign of imminent seizure by the regulatory authorities," he said in a recent report.

Sources close to the bond-

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INSIDE NEWS

INTERNATIONAL

ARGENTINA WILL TRY harder to privatize state-owned companies to improve its finances and help pay its commercial bank debt. *Page 10*

MORTGAGES

CITICORP'S MortgagePower system, which lets brokers collect fees for referring borrowers to the bank, is eliciting a chorus of protest in Washington. *Page 6*

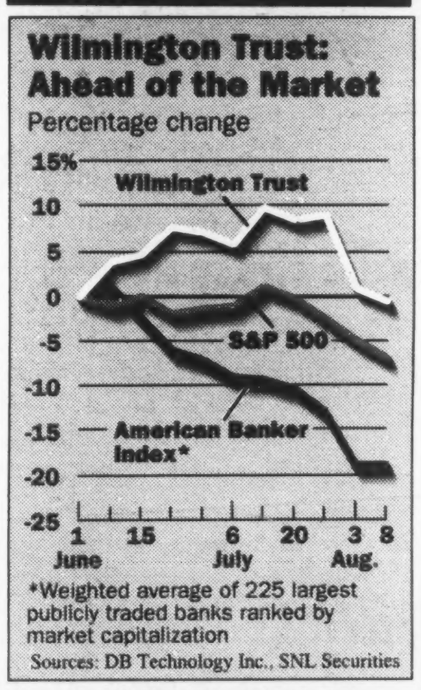
CONSUMER

A HANDFUL of big banks will accept automated teller machine cards bearing the logos of either Cirrus or Plus when the networks begin sharing ATMs on Aug. 20. *Page 8*

TECHNOLOGY

SEAFIRST is upgrading its systems to take advantage of opportunities for low-risk fee income in the trade finance arena. *Page 3*

FINANCE



WILMINGTON TRUST has stayed several steps ahead of the industry, bucking the downward trend among East Coast bank stocks. *Page 16*

R.H. MACY selected Manufacturers Hanover Real Estate to arrange a mortgage on several warehouses and distribution buildings. The proceeds will be used to reduce bank debt. *Page 16*

WASHINGTON

REX R. VEAL, top lawyer at the Resolution Trust Corp., is laying down his guns and going into private practice. *Page 2*

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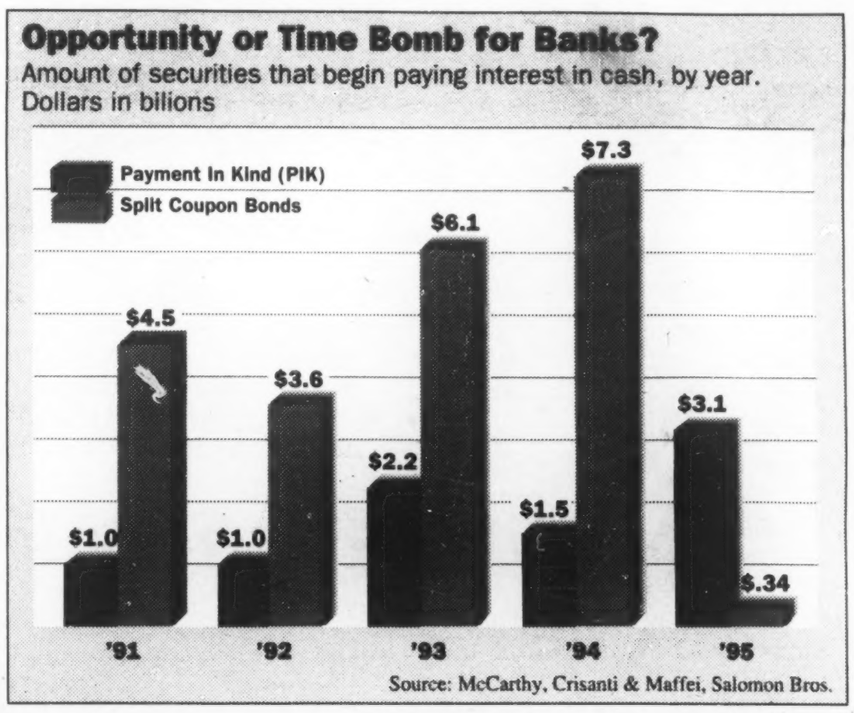

Judgment Day for the Leveraged: Time to Start Paying the Interest

By STEVEN LIPIN

The day of reckoning is rapidly approaching for many companies that used interest-deferred securities to finance recapitalizations or leveraged buyouts. For banks, that will provide both opportunities and dangers.

As the deadlines approach for billions of dollars in securities to begin paying interest in cash, leveraged companies that are doing well will probably seek to replace much of the debt with bank loans, creating a large market for lenders.

But for companies doing poorly, the required payments could sap cash flow, threaten balance sheets, and weaken the position of existing bank loans senior to the debt.

The exotic high-yield securities that defer cash interest are a child of the LBO wave of the '80s. These instruments became popular because they temporarily took some of the pressure off the borrowers. One type, called payment-in-kind securities, enabled payments to made in the form of additional securities. Another type, zero-coupon bonds, deferred any payments for a number of years.

But starting in 1991 and in-

See **DAY** *page* **14**

OTS Seeking $40.9 Million In Restitution From Keating

By DEBRA COPE

WASHINGTON — Stepping up its effort to salvage some cash from the ruins of Lincoln Savings and Loan Association, thrift regulators took action on Thursday to obtain $40.9 million in restitution from Charles H. Keating Jr. and five former directors of American Continental Corp., Lincoln's Phoenix-based parent.

T. Timothy Ryan Jr., director of the Office of Thrift Supervision, said the restitution amount is the largest ever sought from a single thrift, though it is dwarfed by the $1.1 billion racketeering claim that the Resolution Trust Corp. has filed against American Continental. The restitution tactic is designed to increase the pressure on Mr. Keating to account for his holdings.

"We are just trying to move on multiple fronts," Mr. Ryan said.

Poor-Mouthing Fails

"Charles Keating Jr. has amassed vast sums at Lincoln's expense, and he now claims he is broke," Carolyn Lieberman,

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Analyst Testifies That Banks Need 'Breathing Room'

By ROBERT M. GARSSON

WASHINGTON — The commercial banking industry does not need forbearance from regulators, but it does require "a little breathing room" to adjust to the softening real estate markets, a prominent bank stock analyst told a House panel on Thursday.

But to do that, the agencies would have to build up their corps of examiners to ensure that banks do not simply "roll the dice," to recover from losses on their real estate portfolios, said Charles Cranmer, who follows banks for Shearson Lehman Brothers Inc.

Staffing Problem

"Regulatory agencies are woefully understaffed and are losing good people daily to the private sector," he said. "The cost to taxpayers now of a fully staffed corps of examiners would be more than offset by the money saved in loan losses down the

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Analysts Expecting FDIC to Push Premiums Well Above 15 Cents

By BILL ATKINSON

WASHINGTON — Following hints from Federal Deposit Insurance Corp. Chairman L. William Seidman that banks' premiums could go higher than expected next year, several industry analysts now say the industry should expect a substantial increase – perhaps approaching the FDIC's legal limit of 19.5 cents for each $100 of insured deposits.

The FDIC board is expected to consider at its meeting next Tuesday an increase in bank premiums above the rise of 3 cents per $100 of insured deposits slated to take effect next year. The scheduled increase will bring the premium to 15 cents per $100, and the FDIC's total assessment income to $3.75 billion from $3 billion this year.

Maximum Not Expected

Most observers do not expect the premium to hit the 19.5-cent ceiling, but they see an increase well beyond the 15-cent mark as all but certain. Each one-cent increase in the rate adds $250 million to the bank insurance fund, which is expected to need replenishment as banks suffer from a slowing economy.

Under the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, the FDIC can raise the premium as much as 7.5 cents in one year.

But the agency might shy away from adopting the 19.5-cent rate because it would be politically unpalatable, said Bert Ely, president of Ely & Co., a Alexandria, Va.-based financial consulting concern. "If it goes to the final amount, that may raise complaints of gouging," he said.

Mr. Ely expects the FDIC to raise the premium to 18 cents per $100. Then the law would allow another 7.5-cent hike in 1992.

Agreement on Higher Level

Robert Litan, a senior fellow at the Brookings Institution in Washington, also said he would not be surprised if the FDIC board raised the assessment above the slated 15 basis points, but he is hard-pressed to be more exact.

"It is hard to know whether

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NOTE

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